IoD

Deputy J Le Fondré
Chairman, Corporate Services Scrutiny Panel
Scrutiny Office, States Greffe
Morier House
St Helier JE1 1DD

21 December 2014

Dear Deputy Le Fondré

Review into Draft Budget 2015 and Medium Term Financial Plan 2016-2019

Thank you for your letter dated 12 December 2014.

I write on behalf of the members of the Jersey Branch of the Institute of Directors. Currently we have 640 members drawn from a wide range of businesses and from the Public Sector. I welcome the opportunity to comment on the areas under review as set out in your letter.

I am encouraged that the Chief Minister was re-elected with a strong mandate, topping the senatorial polls, and that he has formed a Council of Ministers that appears to be cohesive and supportive of the policies and priorities the Chief Minister has laid out. I look forward to clear and decisive action in pursuit of these objectives.

The 2015 Draft Budget presented in the autumn included a number of temporary measures necessary to balance the books as a result of lower than forecast tax receipts. I understand that a report from the FPP is awaited that will indicate whether Jersey has a structural deficit, and we have seen immediate action in the form of cuts to budgeted spending being imposed across most States departments. Against this backdrop I am anxious that the Treasury Minister is not tempted to impose tax increases that would make Jersey less competitive internationally, and that initiatives aimed at creating long term growth and prosperity should not be starved of funding.

The global financial outlook is more promising than in recent years, with signs of a return to stronger growth in the US and UK in particular, although there is still much downside risk. There are indications that this is beginning to filter through into business activity in Jersey, with a number of members in the finance sector commenting informally on increased levels of business activity and a tighter labour market. That said, some of the increased activity is not in productive areas, for example financial service providers are dealing with increased regulation which is creating jobs but not necessarily adding to the bottom line. I am also not convinced that there will be overall growth in the number of jobs in the finance sector, as I expect that increases in some areas/businesses will be offset by cuts elsewhere.

Outside the finance sector the position is mixed, but largely uninspiring. The construction industry is returning to higher levels of activity mainly as a result of government spending. RBC's committing to a new HQ has also helped. Hospitality has seen a modest increase in visitor numbers but it is difficult to foresee significant growth over the next five years. The same can be said for retail which is experiencing a tough and competitive market place exacerbated by the growth in online shopping. The technology industry enjoyed a good year in 2014 but there is expected to be further consolidation in the industry and headcount requirements are on a downward trend.

A priority for Jersey over the next five years must be to improve skills and education, and better match them to the needs of business. It is clear that the finance industry that emerges from the significant and prolonged downturn will be significantly different to the industry that existed previously. The excellent report "A Sills Study on Jersey's Finance Sector" published in September 2014 clearly demonstrated the changes, with a 50% increase in professional roles in the 10 years to 2011, a loss of 1,000 administrative jobs over the same period, and a similar sized loss in banking roles. These trends are expected to continue, and this illustrates the importance of matching the skills of our workforce with the needs of business. The desire to diversify into other high value, low footprint digital or digitally enabled industries only exacerbates the skills deficit. Without a clear skills strategy and targeted action/investment, Jersey will not be able to compete on the world stage and will start to fall further and further behind. In more traditional sectors, I hear of a shortage of local candidates with the right skills and application which leads me to believe that Jersey urgently needs to formulate a skills and education strategy across the whole spectrum and to turn that strategy into urgent action. I am encouraged that action on this has now begun.

Turning to the budget planning process and the MTFP, I would broadly support the recommendations made in *S.R. 12/2014 Draft Budget 2015* but would note the following:

- We have seen a number of tax rises in recent years that have cumulatively imposed a significant additional burden on middle to high earners. Whilst this burden may still be below that of high tax jurisdictions we must not lose sight of the fact that low tax is a fundamental part of Jersey's attractiveness, and our middle to high earners are extremely mobile. These people include key business owners and workers who form the backbone of the services industries on which Jersey relies. The Long Term Revenue Plan ("LTRP") raises the possibility of increased taxes using the LTC model, increased property taxes, prescription charges and other charges. I would urge that these measures are properly thought through within the context of an over-arching tax and spending strategy, and that a thorough impact assessment is carried out before any tax raising measures are enacted.
- In the current economic environment it is more important than ever that States spending is carefully managed. Services provided should be reviewed to make sure that the government is delivering the services the island needs efficiently and effectively, and non-core services are cut or outsourced to the private sector where practical.
- The need to cut costs should not deter the States from investing in growth, as this would be counter-productive. Balancing the books in the short term is less important than developing the skilled workforce of the future. Creating the ecosystem in which innovation and technology can flourish will secure our future prosperity.
- As important is the need to remove barriers to growth, which means joined up government and reducing red tape.

Jersey has had the luxury of a high level of public spending paid for by tax revenues generated from the export of services. A future in which this continues to be the case is possible, but only if Jersey can create a centre of excellence in areas of financial services, fintech, digital technology and innovation. Otherwise a round of tax rises and cuts in spending will prove not to be enough and will inevitably be followed by an exodus of mobile high earners followed by a further downward spiral of tax rises and spending cuts, leading to a drop in living standards for the remaining (aging) population and an island with a bleak future.

Yours sincerely

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Wendy Dorman
IoD Jersey Branch Chairman